

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1559

Amendment Number: H2

Bill Subtitle: TO AMEND THE CORPORATE INCOME TAX WITHHOLDING REQUIREMENTS FOR MEMBERS OR OWNERS OF A PASS-THROUGH ENTITY.

Basic Change :

Sponsor: Representative Jett

HB1559, as amended by H-2, clarifies that C corporations may participate in a composite return, that C corporations may be exempted from withholding if it signs an agreement to file corporation income tax returns and pay the tax timely and to be subject to collections actions in court and that a C corporation may file a corporation income tax return and claim any taxes withheld by a partnership as a payment toward the corporation income tax. The effective date has been changed for tax years beginning on or after January 1, 2018.

HB1559 amends § 26-51-919(a)(2) to require that pass-through entities withhold income tax at the maximum rate for a C corporation which is a member of the pass-through entity. § 26-51-919(d) is also amended to clarify that C corporations cannot be included in the filing of a composite return. This bill is effective for tax years beginning from and after January 1, 2017.

Revenue Impact :

None.

Taxpayer Impact :

Pass-through entities will be required to withhold income tax on any C corporation that is a member of the pass-through entity. C corporations will be able to participate in a composite return. C corporations will be able to claim the withholding to offset their Arkansas corporation income tax liability.

Resources Required :

Forms and instructions along with system programming will need to be updated. Training and procedure manuals will also need to be updated.

Time Required :

Adequate time is provided to implement this bill.

Procedural Changes :

None.

Other Comments :

None.

Legal Analysis :

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Because the bill's purpose is to require pass-through entities to withhold Arkansas income tax for all types of members, including Subchapter C corporations, the amendment appropriately adds a reference to the existing corporate income tax rate set forth in Arkansas law. Commensurate with the inclusion of withholding for Subchapter C corporations, they may also elect to be included in the composite income tax return filed by the pass-through entity. The amendment extends the effective date to January 1, 2018.